

Message Text

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INFO OCT-01 ISO-00 EURE-00 SSO-00 INRE-00 NSCE-00 AEC-11

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FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 4929

UNCLAS SECTION 1 OF 3 ROME 7038

E.O. 11652: N/A

TAGS: ENRG, IT

SUBJECT: ENERGY - DRAFT PAPER ON ROLE OF THE OIL INDUSTRY

PASS FEA

FOLLOWING IS TEXT OF ITALIAN/DANISH/UK DRAFT PAPER ON ROLE OF OIL INDUSTRY TO BE SUBMITTED TO MAY 23 WORKING GROUP MEETING IN ROME. HOPKINS, FUNKHOUSER AND WILHELM RECEIVED COPIES OF TEXT ON ARRIVAL ROME MAY 22.

BEGIN TEXT: "/CHAPTER I/

"THE CHANGING ROLE OF THE INTERNATIONAL OIL COMPANIES.

"1. SINCE 1970, OIL MARKET CONDITIONS HAVE GREATLY ENHANCED THE PRODUCER GOVERNMENTS' BARGAINING POSITION VIS-A-VIS THE MAJOR INTERNATIONAL OIL COMPANIES. AGREEMENTS GIVING PRODUCER GOVERNMENTS SUBSTANTIAL OWNERSHIP OF AND CONTROL OVER CRUDE PRODUCTION HAVE BEEN IMPLEMENTED AND ARRANGEMENTS FOR FURTHER

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TRANSFERS OF EQUITY SEEM LIKELY TO CONTINUE. AS A RESULT,

KEY DECISIONS ON PRICE AND PRODUCTION LEVELS ARE AT THE PRESENT TIME BEING MADE UNILATERALLY BY PRODUCER GOVERNMENTS AND NOT BY THE COMPANIES.

"2. OIL PRICE LEVELS, ONCE SET EXCLUSIVELY BY THE COMPANIES, AND THEN UNTIL VERY RECENTLY BY COMPANY-PRODUCER STATE NEGOTIATIONS, ARE, AT LEAST FOR THE PRESENT, BEING IMPOSED BY THE PRODUCER STATES. THE RECENT SHARP OIL PRICE RISES THREATEN THE WORLD'S FINANCIAL STABILITY. THE IMPOSITION OF THESE VERY STEEP INCREASES TO WHAT WE CONSIDER TO BE UNREASONABLE AND ECONOMICALLY UNSUSTAINABLE LEVELS DRAMATIZES THE EROSION OF PRICE BARGAINING POWER THAT ALL OIL COMPANIES - MAJORS, INDEPENDENTS AND NATIONALS - HAVE EXPERIENCED IN RECENT MONTHS.

"3. THE MAJORS HAVE ALSO LOST THEIR FORMER EXCLUSIVE CONTROL OVER CRUDE OIL OWNERSHIP AND, AT LEAST FOR THE MOMENT, OVER PRODUCTION LEVELS. PARTICIPATION ARRANGEMENTS WITH PRODUCERS, VARIOUS FORMS OF PRODUCTION SHARING, AND OUTRIGHT NATIONALIZATION HAVE PLACED LARGE AMOUNTS OF CRUDE IN THE HANDS OF PRODUCER GOVERNMENTS. THE METHODS BY WHICH THEY WILL DISPOSE OF THIS OIL IN THE FUTURE ARE UNCERTAIN; AT THE MOMENT HOWEVER IT DECREASES THE POWER OF THE INTERNATIONAL COMPANIES AND RAISES QUESTIONS OF SUPPLY SECURITY FOR THEIR CONSUMER COUNTRIES. ALSO, THE ULTIMATE SIZE OF THE PRODUCER GOVERNMENT SHARE IN MANY KEY REGIONS IS STILL UNCERTAIN, AS IS WHETHER THE CURRENT DIFFERENTIAL BETWEEN THE COST OF EQUITY AND PARTICIPATION OIL WILL BE RETAINED IN FUTURE ARRANGEMENTS. THE AMOUNTS OF OIL AVAILABLE TO OTHER CONSUMERS IS ALSO IN LARGE PART BEING DETERMINED BY PRODUCER 'FIAT,' AND THERE ARE TENDENCIES TO MAINTAIN CONSERVATION LEVELS. IT IS UNCLEAR WHETHER THERE WILL BE A RETURN TO A MORE COMPETITIVE OIL MARKET, AND A RESTORATION OF PRODUCER-COMPANY NEGOTIATIONS AND BARGAINING ON PRICE AND PRODUCTION LEVELS.

"4. AT THE SAME TIME THAT THE MAJOR COMPANIES ARE EXPERIENCING EXTENSIVE CHANGES IN THEIR TRADITIONAL RELATIONSHIP WITH PRODUCERS, THEIR ROLE, CONDUCT, AND POLICIES IN MANY CONSUMER STATES ARE UNDERGOING CLOSE SCRUTINY AND CRITICISM. THERE UNCLASSIFIED

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ARE APPREHENSIONS ABOUT POSSIBLE OVER-RELIANCE ON EXTERNALLY CONTROLLED CORPORATIONS FOR OIL SUPPLY. IN THIS SITUATION CERTAIN CONSUMER GOVERNMENTS HAVE TAKEN VARIOUS ACTIONS, BY LEGISLATION OR OTHERWISE, TO LIMIT PRICE INCREASES, TO SECURE ALTERNATIVE SUPPLY VIA BILATERAL DEALS, STRONGER BACKING OF NATIONAL COMPANIES, AND TO OBTAIN GREATER INFORMATION.

"5. INTERNATIONAL OIL COMPANIES ARE PASSING THROUGH A PERIOD

OF READJUSTMENT TO NEW CONDITIONS, THE END OF WHICH IS NOT IN SIGHT. DESPITE THE CURRENT EROSION OF THEIR POWER, THEY REMAIN EFFICIENT VEHICLES FOR FINDING, PRODUCING, REFINING AND MARKETING OIL. THEY HAVE TRADITIONALLY UNDERTAKEN INVESTMENTS OF RISK CAPITAL NEEDED TO FIND AND PRODUCE OIL. THEIR MULTILATERAL STRUCTURE IS A DIRECT REJECTION OF THE ESSENTIAL MULTILATERAL NATURE OF THE OIL INDUSTRY ITSELF, WHICH REQUIRES 'BALANCING OF THE BARREL' AMONG THE VARIOUS CONSUMER NATIONS. IT IS THEREFORE LIKELY THAT THEY WILL CONTINUE TO PLAY AN IMPORTANT ROLE IN THE FUTURE WITHIN AN ENLARGED FRAMEWORK OF THE OIL INDUSTRY IN WHICH OTHER COMPANIES WILL ALSO PLAY THEIR PART.

"/CHAPTER II/

"REPERCUSSIONS OF THE PRESENT SITUATION ON SUPPLY AND COSTS FOR THE VARIOUS COUNTRIES AND OIL COMPANIES.

"1. THE SITUATION DESCRIBED IN CHAPTER I HAS CREATED PUBLIC AND OFFICIAL CONCERN ABOUT THE PRESENT AND FUTURE RELATIONSHIPS BETWEEN CONSUMER GOVERNMENTS, PRODUCER GOVERNMENTS AND THE VARIOUS CATEGORIES OF OIL COMPANIES. IN PARTICULAR, THERE IS CONCERN AS REGARDS THE FOLLOWING MAIN AREAS:

"A. THE ABILITY OF CONSUMERS TO OBTAIN ADEQUATE AND REASONABLY PRICED SUPPLIES, ESPECIALLY IN TIMES OF EMERGENCY OR MARKET TENSIONS;

"B. THE LEVEL AND STRUCTURE OF PRICES CHARGED BY THE MAJORS TO CONSUMERS, PARTICULARLY IN VIEW OF THE LEVEL OF PROFITS RECENTLY RECORDED BY THE MAJORS;

"C. THE ACCESS OF NON-INTEGRATED COMPANIES TO CRUDE OIL
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SUPPLIES, AND THE PRICES CHARGED TO THEM BY THE MAJORS OR BY PRODUCING COUNTRIES.

"2. THE NEW CONTROL EXERCISED BY PRODUCING NATIONS OVER BOTH THE LEVEL AND DISTRIBUTION OF SUPPLY CREATES A CORRESPONDING REQUIREMENT ON THE PART OF CONSUMER GOVERNMENTS THAT DISTRIBUTION MANDATED BY PRODUCERS DOES NOT DISRUPT CONSUMER ECONOMIES AND NATIONAL LIFE. IT SEEMS INDISPENSABLE THAT COORDINATED ACTION BE TAKEN BY CONSUMERS GOVERNMENTS TO ENSURE OIL SUPPLIES AT REASONABLE AND EQUITABLE CONDITIONS.

"3. IT IS CLEAR THAT GOVERNMENTS HAVE BOTH A RIGHT AND AN OBLIGATION TO THEIR CITIZENS TO STRIVE TO ENSURE TO THE GREATEST POSSIBLE EXTENT THAT THEIR COUNTRIES RECEIVE EQUITABLE TREATMENT FROM THE MAJORS IN TERMS OF THE ALLOCATION AND

PRICING OF CRUDE AND PETROLEUM PRODUCTS.
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"4. THE WORKING GROUP BELIEVES THAT IN A NORMAL MARKET SITUATION A SUBSTANTIAL DEGREE OF COMPETITION AMONG THE OIL COMPANIES IS IN THE INTEREST OF THE CONSUMERS AND SHOULD BE FOSTERED.

"5. AS IS NOTED IN POINT C ABOVE, THERE IS A CONCERN OVER THE TERMS OF ACCESS TO SUPPLIES OF CRUDE OIL BY NATIONAL AND OTHER NON-INTEGRATED COMPANIES. SINCE THE BEGINNING OF THE RECENT CRISIS, MANY OF THESE COMPANIES HAVE HAD TO BUY CRUDE OIL AT PRICES WHICH ARE GENERALLY HIGHER THAN THOSE AT WHICH SOME CRUDE IS AVAILABLE TO THE MAJORS. TO SOME EXTENT THE LOWER PRICE AT WHICH SOME CRUDE IS AVAILABLE TO THE MAJORS IS ATTRIBUTABLE TO THEIR SUBSTANTIAL CAPITAL INVESTMENTS IN PRODUCTION FACILITIES.

"6. PRICING AND OTHER ARRANGEMENTS BETWEEN THE PRODUCING COUNTRIES AND THE MAJORS ARE CURRENTLY UNDERGOING VERY SUBSTANTIAL CHANGE, AND IT IS IMPOSSIBLE TO FORESEE WITH ANY

DEGREE OF CERTAINTY WHAT THE PATTERN OF THESE ARRANGEMENTS
WILL BE IN THE FUTURE. IT MAY WELL BE THAT UNDER THE NEW
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ARRANGEMENTS, THE MAJORS WILL NO LONGER HAVE A SIGNIFICANTLY
PREFERENTIAL POSITION IN TERMS OF ACCESS TO RELATIVELY LOW
PRICED CRUDE. THE NEW ARRANGEMENTS MAY ALSO MODIFY CURRENT
PRACTICES OF PRODUCER GOVERNMENTS WHICH AFFECT THE
AVAILABILITY OF CRUDE TO NATIONAL COMPANIES.

"7. THE LESS FAVORABLE STATUS OF SOME NATIONAL COMPANIES
IN SOME PRODUCING COUNTRIES IS A SOURCE OF LEGITIMATE CONCERN
TO THE NATIONAL GOVERNMENTS INVOLVED. METHODS SHOULD BE
EXAMINED THAT ENSURE EQUITABLE EVEN-HANDED TREATMENT FOR THESE
AND OTHER COMPANIES, WHILE NOT IMPAIRING THE ABILITY OF THE
MAJOR OIL COMPANIES TO PROVIDE THOSE SERVICES FOR WHICH THEY
ARE WELL SUITED. SHOULD SUCH A MUTUAL UNDERSTANDING ON
SUCH METHODS NOT BE ACHIEVED, EACH COUNTRY OR COMPANY WOULD
PROBABLY TRY TO MAKE THE BEST DEALS ON THEIR OWN. GOVERNMENTS
OF IMPORTING COUNTRIES NOT IDENTIFIED WITH MAJOR OIL COMPANIES
COULD BE EXPECTED TO TAKE STEPS WHICH MIGHT UNDERMINE AND
DIMINISH THE POSITION OF MAJOR COMPANIES IF THIS WERE NECESSARY
TO ACHIEVE MORE RELIABLE (QUANTITY AND PRICE) SOURCES OF
SUPPLY; ON THE OTHER HAND, IF OTHER COMPANIES COULD FEEL
REASONABLY ASSURED THAT THEY WILL HAVE A SUPPLY SECURITY WHICH
IS NOT ESSENTIALLY LOWER THAN THAT OF THE MAJOR COMPANIES,
AND THAT THE COST AT WHICH THEY WILL OBTAIN OIL DOES NOT
DIFFER UNDULY FROM THAT OF THE MAJORS, IT WOULD BE IN THE
INTEREST OF ALL GOVERNMENTS TO SUPPORT THE PROPER
FUNCTIONING OF MECHANISM DESIGNED FOR THIS PURPOSE.

"/CHAPTER III/

"PROPOSED ACTION BY CONSUMER GOVERNMENTS

"1. FACED WITH THE PROBLEMS OUTLINED IN CHAPTER II,
CONSUMER GOVERNMENTS WILL WANT TO CONSIDER AND REACH AGREEMENT
ON WHAT ACTION IS TO BE TAKEN IN ORDER TO SAFEGUARD THEIR
INTERESTS IN THE FUTURE. A MAJOR DIFFICULTY IN MAKING SUCH
DECISIONS STEMS FROM THE FACT THAT DECISIONS HAVE TO BE MADE
IN A SITUATION WHERE EXISTING ARRANGEMENTS AND PRACTICES
ARE UNDERGOING VERY SUBSTANTIAL CHANGES AND WHERE IT IS
DIFFICULT TO FORESEE WHAT THE FUTURE PATTERN WILL BE. IT MAY
WELL BE THAT IN THE FUTURE THE MAJORS WILL NO LONGER HAVE A
SIGNIFICANTLY PREFERENTIAL POSITION IN TERMS OF ACCESS TO
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RELATIVELY LOW PRICED CRUDE. PRODUCER GOVERNMENTS MAY ALSO

MODIFY CURRENT PRACTICES WHICH WILL AFFECT THE AVAILABILITY OF CRUDE TO OTHER COMPANIES.

"2. THE UNCERTAINTY OF THE SITUATION SHOULD NOT LEAD CONSUMER GOVERNMENTS TO THE CONCLUSION THAT NO ACTION CAN BE TAKEN. ON THE CONTRARY - WHILE PROVIDING FOR FLEXIBILITY - CONSUMER GOVERNMENTS SHOULD TAKE ACTION AIMING AT IMPROVING THE OIL INDUSTRY SITUATION ESPECIALLY WITH REGARD TO THE PROBLEMS IDENTIFIED IN CHAPTER II.

"A. /PROPOSED ACTION WITH RESPECT TO THE OIL INDUSTRY/.

"IT IS GENERALLY AGREED THAT CONSUMER GOVERNMENTS WILL NEED TO PLAY A RATHER MORE ACTIVE ROLE IN RELATION TO THE OIL INDUSTRY THAN IN THE PAST IF THE DIFFICULTIES MENTIONED IN CHAPTER II ARE TO BE OVERCOME.

"AS INDICATED EARLIER, WE BELIEVE THAT THE MAJOR OIL COMPANIES WILL CONTINUE TO PLAY AN IMPORTANT ROLE IN THE FUTURE WITHIN AN ENLARGED FRAMEWORK OF THE OIL INDUSTRY, IN WHICH OTHER COMPANIES WILL ALSO PLAY THEIR PART. MOREOVER IT WILL REMAIN IMPORTANT FOR THEM - LIKE THE OTHER CATEGORIES OF COMPANIES - TO ENSURE FINANCIAL VIABILITY, ESPECIALLY ON ACCOUNT OF THE CAPITAL DEMANDS EXPECTED. ALL THE PROPOSALS NOW SUBMITTED ARE INTENDED TO BE COMPATIBLE WITH THIS, AND ARE PUT FORWARD IN A CONSTRUCTIVE WAY, CONDUCIVE TO COOPERATION.

" IN PARTICULAR, ACTION SHOULD BE TAKEN IN THE FOLLOWING FIELDS: - THE ESTABLISHMENT OF A COOPERATIVE FRAMEWORK BETWEEN CONSUMER GOVERNMENTS AND OIL COMPANIES;
- THE ESTABLISHMENT OF AN EFFECTIVE INTERNATIONAL INFORMATION SYSTEM;
- THE INTRODUCTION OF AN INTERNATIONAL LEGAL BASIS FOR INTERVENTION TO BE DECIDED UPON IN A SITUATION OF MARKET TENSION WHICH CANNOT BE ALLEVIATED THROUGH CONSULTATIONS WITHIN THE COOPERATIVE FRAMEWORK MENTIONED ABOVE;
- THE ADOPTION OF A SET OF PRECISE MEASURES TO BE SET IN FORCE AUTOMATICALLY IN EMERGENCY SITUATION.

"1. /COOPERATIVE FRAMEWORK BETWEEN CONSUMER GOVERNMENTS
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AND OIL COMPANIES/.

"AN INTERNATIONAL COOPERATIVE FRAMEWORK WOULD PROVIDE A PERMANENT FORUM FOR A DIALOGUE ON ALL IMPORTANT ASPECTS OF THE OIL MARKET. IT WOULD MAKE IT POSSIBLE FOR BOTH CONSUMER GOVERNMENTS AND COMPANIES TO CONSIDER CURRENT DEVELOPMENTS AND TO FORMULATE APPROPRIATE ACTION. IT WOULD ALSO PROVIDE A FLEXIBILITY WHICH WOULD PROMOTE SOUND COMPETITIVE CONDITIONS IN THE OIL SECTOR IN THE INTEREST OF CONSUMERS.

"2. /AN INTERNATIONAL INFORMATION SYSTEM/.

"IT IS GENERALLY AGREED THAT GREATER TRANSPARENCY OF THE OIL MARKET AND OF THE ACTIVITIES OF THE OIL COMPANIES IS NEEDED IN ORDER TO ENABLE CONSUMER GOVERNMENTS TO ENSURE TO THE GREATEST EXTENT POSSIBLE THAT THEIR COUNTRIES AND COMPANIES RECEIVE EQUITABLE TREATMENT IN TERMS OF SUPPLY AND PRICING TREATMENT IN TERMS OF SUPPLY AND PRICING OF CRUDE AND PRODUCTS. THIS OBJECTIVE COULD BE MET BY THE ADOPTION OF THE FOLLOWING MEASURES:

"A) AN OBLIGATION FOR OIL COMPANIES TO SUPPLY THE GOVERNMENTS IN COUNTRIES WHERE THEY OPERATE WITH ALL RELEVANT INFORMATION CONCERNING THEIR STRUCTURE, ACTIVITIES AND POLICIES;

"B) AN OBLIGATION FOR GOVERNMENTS TO MAKE INFORMATION AVAILABLE TO A COMMON CENTER ON A COUNTRY AND/OR COMPANY BASIS AS APPROPRIATE.

"C) PRECISE STANDARDS FOR THE HARMONIZATION OF THE INFORMATION GATHERED IN ORDER TO ENSURE COMPARABILITY OF THE DATA.

"AS FOR THE CONTENTS OF THE INFORMATION TO BE COMPLIED UNDER THE SYSTEM, SOME COUNTRIES FOUND THE CONSUMER COUNTRIES SHOULD AGREE ON THE LIST SET OUT IN THE ANNEX TO THIS REPORT. THE EXECUTION OF THE INFORMATION SYSTEM SHOULD, IN THEIR VIEW, BE PERFORMED BY A SUITABLE INTERNATIONAL TECHNICAL BODY, E.G. THE OECD OIL COMMITTEE. OTHER COUNTRIES FOUND THAT IDENTIFYING THE RELEVANT INFORMATION AND AVAILABLE SOURCES IS A COMPLICATED TASK REQUIRING CONSIDERABLY MORE STUDY. IN THEIR VIEW THE OECD OIL COMMITTEE WOULD APPEAR TO BE A UNCLASSIFIED UNCLASSIFIED

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SUITABLE AND APPROPRIATE MECHANISM IN WHICH GOVERNMENTS COULD UNDERTAKE THESE COOPERATIVE EFFORTS. IN EITHER CASE CARE MUST BE TAKEN IN ESTABLISHING NEW PROCEDURES FOR THE EXCHANGE OF INFORMATION AMONG GOVERNMENTS TO ENSURE THAT COMPETITION IS NOT PREJUDICED AND THAT PROCEDURES MUST TAKE CAREFUL ACCOUNT OF THE LEGAL PROVISIONS OF VARIOUS COUNTRIES AND GROUPS OF COUNTRIES.

"3. /INTERVENTION IN SITUATIONS OF MARKET TENSION/.

"THE FUNDAMENTAL OBJECTIVE OF CONSUMER GOVERNMENTS, I.E. TO SECURE EQUITABLE ACCESS TO SUPPLIES AT NON-DISCRIMINATORY PRICE CONDITIONS, MAY NOT BE MET SIMPLY BY CONSULTATIONS BETWEEN GOVERNMENTS AND OIL COMPANIES.
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"CONSUMER GOVERNMENTS SHOULD THEREFORE AGREE ON AN INTERNATIONAL LEGAL BASIS FOR INTERVENTION TO BE DECIDED UPON ACCORDING TO RULES OF PROCEDURE FIXED IN ADVANCE IN SITUATION OF MARKET TENSION. THE CRITERIA FOR DETERMINING WHAT CONSTITUTES SUCH A SITUATION SHOULD BE INCLUDED IN THE LEGAL BASIS. IN VIEW OF THE DIFFICULTIES IN FORESEEING THE DETAILED CIRCUMSTANCES OF ANY GIVEN SITUATION OF MARKET TENSION, IT WOULD BE LEFT TO THE CONCRETE DECISIONS TO CHOOSE THE APPROPRIATE INTERVENTION MEASURES FROM A PRE-ESTABLISHED NON EXHAUSTIVE LIST OF POSSIBLE MEASURES INCLUDED IN THE LEGAL BASIS ADOPTED BY GOVERNMENTS. PROVISIONS SHOULD ALSO BE INCLUDED IN THE LEGAL BASIS FOR THE COOPERATION BETWEEN CONSUMER GOVERNMENTS AND OIL COMPANIES FOR THE EFFECTIVE IMPLEMENTATION OF MEASURES.

"4. /EMERGENCY MEASURES/.

"GOVERNMENTS SHOULD ADOPT A SET OF PRECISE MEASURES TO BE SET IN FORCE AUTOMATICALLY IN EMERGENCY SITUATIONS. THIS QUESTION IS DEALT WITH ELSEWHERE IN THE WORK OF THE ECG, BUT SHOULD BE SEEN AS AN INTEGRAL PART OF CONSUMER GOVERNMENTS
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ACTION IN GENERAL. THE MEASURE ADOPTED SHOULD INCLUDE PRECISE INDICATIONS CONCERNING THE COOPERATION BETWEEN CONSUMER GOVERNMENTS AND OIL COMPANIES FOR THE EFFECTIVE IMPLEMENTATION OF THE EMERGENCY MEASURES. THERE SHOULD ALSO BE PRECISE PROVISIONS FOR STEPPING UP THE INFORMATION MACHINERY MENTIONED UNDER 2 IN EMERGENCY SITUATIONS.

"B. /ACTION IN RELATION TO PRODUCER GOVERNMENTS/.

"THE ESTABLISHMENT OF A GENERAL CO-OPERATIVE FRAMEWORK WITH OIL COMPANIES WOULD PROVIDE A WIDER BASIS FOR THE INDUSTRY AND THEREBY CONTRIBUTE TO ENSURING MORE STABLE SUPPLIES AT NON-DISCRIMINATORY PRICES TO CONSUMERS. IT IS, HOWEVER, CLEAR FROM WHAT IS SAID IN CHAPTER I THAT PRODUCER GOVERNMENTS PLAY A VITAL PART IN THIS RESPECT. CONSUMER GOVERNMENTS WILL THEREFORE WISH TO TACKLE THIS PROBLEM BY A TWOFOLD CO-OPERATIVE EFFORT DIRECTED BOTH TOWARDS THE OIL COMPANIES AND TOWARDS THE PRODUCER GOVERNMENTS.

"THE ESTABLISHMENT OF A CO-OPERATIVE FRAMEWORK BETWEEN CONSUMER AND PRODUCER GOVERNMENTS WOULD BE THE MAIN OBJECTIVE OF THE PRODUCER-CONSUMER CONFERENCE ENVISAGED BY THE WASHINGTON CONFERENCE.

"WORK CONDUCTED ELSEWHERE UNDER THE ECG WILL BRING OUT A NUMBER OF TOPICS WHICH COULD USEFULLY BE APPROACHED IN SUCH A CONFERENCE. ONE OF THESE TOPICS IS DIRECTLY RELEVANT FOR THIS REPORT, I.E. THE QUANTITIES AND PRICE OF SUPPLY OF CRUDE OIWK MADE AVAILABLE TO CONSUMERS BY PRODUCER GOVERNMENTS.

"THE COUNTRIES REPRESENTED IN THE ECG WILL WISH TO FORMULATE CERTAIN GUIDNING PRINCIPLES FOR ESTABLISHING A CO-OPERATIVE FRAMEWORK WITH PRODUCER COUNTRIES ON THE BASIS OF WHICH THESE COUNTRIES CAN BE APPROACHED; SUCH GUIDING PRINCIPLES SHOULD COVER INTER ALIA THE FOLLOWING QUESTIONS:

"A) ARRANGEMENTS FOR REGULAR AND PERIODICAL CONSULTATIONS WITH THE AIM OF ACHIEVING A HARMONIOUS AND ENDURING RELATIONSHIP BETWEEN PRODUCERS AND CONSUMERS.

"B) MECHANISMS DESIGNED TO ENSURE EQUITABLE ACCESS TO AND
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NON-DISCRIMINATORY PRICING OF CRUDE MADE AVAILABLE BY PRODUCER COUNTRIES TO CONSUMERS THROUGH THE CHANNELS OF THE MAJORS AND OTHER COMPANIES.

"THE CONSUMER GOVERNMENTS, AS PART OF AGREEMENTS BETWEEN PRODUCING AND CONSUMING COUNTRIES, SHOULD REACH A BASIC AGREEMENT UNDER WHICH THE CONSUMING COUNTRIES, SHOULD REACH A BASIC AGREEMENT UNDER WHICH THE CONSUMING COUNTRIES AND THE NATIONAL COMPANIES SHOULD BE GIVEN REASONABLE CERTAINTY TO SECURE OIL SUPPLIES AT PRICE CONDITIONS NOT DISSIMILAR FROM THOSE OF THE MAJORS. HOW THIS OBJECTIVE WILL BE REACHED (LONG-TERM SUPPLY CONTRACTS, ESTABLISHMENT OF CONSORTIA AMONG OIL COMPANIES IN OLD AND NEW OIL AREAS, ETC.) WILL DEPEND UPON THE KIND OF AGREEMENT THE CONSUMING COUNTRIES WILL REACH WITH THE PRODUCING COUNTRIES.

"SUCH A WIDENING OF THE INDUSTRY BASIS, ALLOWING A REGULAR CARRYING ON AND DEVELOPMENT OF THE OIL ACTIVITIES, WOULD BE IN THE INTEREST OF THE CONSUMING COUNTRIES AND THE OIL COMPANIES, BOTH MAJORS AND OTHERS, AND IT WOULD ALSO SERVE THE LONG-TERM INTERESTS OF THE PRODUCING COUNTRIES.

"/ANNEX/

"A. /COMPANY STRUCTURE AND OVERALL ACTIVITY/.

"A) CORPORATE STRUCTURE (THE ORIGIN AND COMPOSITION OF THE CAPITAL);

"B) TECHNICAL CAPACITIES (PRODUCTION, STOCKPILING, TRANSPORTATION, REFINING AND DISTRIBUTION);

"C) FINANCIAL CAPACITY;

"D) BALANCE SHEETS AND PROFIT AND LOSS ACCOUNTS;

"E) DECLARED PROFITS AND TAXES PAID.

"B. /INVESTMENT POLICY/.

"A) INVESTMENT-PROGRAMS (THREE YEARS)

- GEOGRAPHICAL DISTRIBUTION

- FUNCTIONAL DISTRIBUTION (EXPLORATION, PRODUCTION, STOCKPILING, TRANSPORT, REFINING AND DISTRIBUTION);

- METHODS OF FINANCING.

"B) ACTUAL INVESTMENTS (YEARLY REALIZATION) AS ABOVE.

"C. /SUPPLY POLICY./

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"A) CRUDE QUANTITIES AVAILABLE TO COMPANIES IN THE VARIOUS PRODUCING COUNTRIES AS 'EQUITY' OIL, 'BUY BACK' OIL AND 'MARKET-PRICE' OIL;

"B) LONG-TERM SUPPLY PLANS (THREE YEARS), OWN RESOURCES, LONG-TERM SUPPLY CONTRACTS, ETC.

"C) IMPORT AND ALLOCATION PROGRAMS (ONE YEAR), CRITERIA USED IN ALLOCATING GLOBAL AVAILABLE QUANTITIES OF CRUDE TO THE VARIOUS CONSUMER COUNTRIES, ALLOCATION OF CRUDE TO AFFILIATES AND THIRD PARTIES;

"D) QUARTERLY REPORTS ON ACTUAL IMPLEMENTATION OF THE IMPORT

AND ALLOCATION PROGRAMS;

"E) QUARTERLY REPORTS ON STOCKS.

"D. /PRICE POLICY.

"A) SUPPLY COSTS (FOB AND CIF) OF CRUDE OIL AND OIL PRODUCTS;

"B) REFINING AND DISTRIBUTION COSTS;

"C) EX-REFINERY SELLING PRICES;

"D) TRANSFER PRICES BY PARENT COMPANIES TO THEIR OWN

DISTRIBUTION AFFILIATES;

"E) CONSUMER PRICES." END TEXT.VOLPE

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